Both Gross State Product (GSP) and nonagricultural employment in Alabama will grow much slower in 1999 than in 1998. Driving forces in 1999 include:

- a global recession in most of the world, impacting Alabama exports;
- tight labor markets, constraining job growth and raising wage costs;
- declining corporate profits, meaning reduced investment spending;
- tighter credit controls on firms seeking capital;
- high levels of consumer debt; and falling consumer confidence.

These factors will impact retail spending and consumer borrowing in the coming months. The recent lowering of short term interest rates by the Fed may help, although it usually takes about a year for interest rates to affect the economy.

**Gross State Product.** Alabama's GSP grew at an average annual rate of 3.0 percent in 1998, below the 3.4 percent rate for the United States. In 1999 both U.S. Gross Domestic Product (GDP) and Alabama GSP are expected to increase by 2.2 percent. A major factor constraining the state's overall growth in 1999 will be slow growth in the labor force. Neither a serious recession nor a downturn is forecasted, but the economy will be much more sluggish, compared to recent years.

**Manufacturing.** Output from the state's manufacturing sector will slow from the 1998 growth rate of 2.3 percent to only 0.9 percent in 1999. An influx of cheap imports from Asia is reducing demand for Alabama-made goods both here and abroad. Manufacturing profits are being squeezed by cheaper imports, rising labor costs, and declining orders. If employee layoffs in manufacturing continue, growth in 1999 could be further depressed.

Last year Alabama's manufacturers downsized by about 800 net jobs. This trend is expected to continue. In 1999 durable goods producing industries should add approximately 300 new jobs, while nondurable goods producing businesses are expected to lose about 3,700 jobs.

**Construction.** A significant slowdown is also expected in the construction sector because manufacturing firms will not be doing much capital spending. Residential building will be affected by low consumer confidence in the economy. Real output of the construction sector in Alabama will be substantially below the 1998 level. The construction sector is expected to add about 1,600 new jobs, far below the 4,300 new jobs added in 1998.

**Trade and Services.** Although output in the trade and services sectors is expected to grow by about 3 percent in 1999, employment increases in these sectors will be much lower than in 1998. The services sector will add about 10,200 new jobs, the only sector in which job growth will increase in 1999 over 1998. This gain is primarily due to rapid growth in health services. Employment in both health and business services will increase, with each industry adding about 2,400 jobs in 1999. There will be approximately 6,950 new jobs in wholesale and retail trade in 1999, slightly below the 7,100 jobs added in 1998.

**Employment Summary.** Employment growth will be much slower in 1999 compared to 1998. In 1999 Alabama will add about 18,700 net new nonagricultural jobs, primarily in services, trade, and state and local government.

**Income Summary.** Real wage and salary income in the state will increase at an average annual rate of 5.0 percent, significantly below the national rate of 5.9 percent. Alabama's lower income growth is due to considerable competitive pressures on the industrial sector in both domestic and international markets and to modest job growth.
Alabama Metropolitan Areas: The Year 1998 in Review

Anniston. The Anniston Metropolitan Area (MA) faced challenges on several fronts in 1998. Jobs in the MA were 200 below 1997 through November, while there were 900 fewer employed residents. Employment in the manufacturing sector was off 500 through November, primarily due to job losses in apparel and electrical machinery manufacturing. On the positive side, retail sales for the first six months of 1998 were 6.9 percent above the same period in 1997 and trade employment was up 200. And, while Fort McClellan has been winding down to its closure in September 1999, work at the Anniston Army Depot has increased.

Birmingham. With unemployment averaging 2.7 percent through November, jobs up 8,100, and 2,600 more area residents employed, the Birmingham Metropolitan Area fared well in 1998. Birmingham continued to build on its strengths in services and trade. Services employment increased by 3,800 through November 1998. Health, business, amusement, and telemarketing services all saw strong growth. Trade employment was up 3,100, with gains primarily in the retail sector. However, retail sales for the first six months of 1998 were a modest 2.6 percent higher than sales in the same period of 1997. Birmingham enhanced its position as the financial center of the state, with the addition of about 1,300 jobs in finance, insurance, and real estate. In contrast, manufacturing employment continued to decline, averaging 1,200 fewer jobs in 1998. Primary and fabricated metals were hit hard—employment through November 1998 was 800 below 1997.

Decatur. With construction of Boeing’s Delta IV rocket plant progressing on schedule, Decatur is poised to build on its strength in manufacturing. About 29.2 percent of area employment was in manufacturing in 1998, the highest concentration in the state. Although steel producer Trico was forced to scale back production, a number of other manufacturing firms announced expansions. Because production at Boeing is not yet online, manufacturing employment was up just 100 through November. Construction continued strong, with employment averaging 300 above 1997. Gains in services and trade were modest.

Retail sales for the first six months of the year were up a moderate 3.2 percent. Unemployment dropped to an average of 4.0 percent through November 1998, with jobs in the area up 500 and the civilian labor force below its 1997 average.

Dothan. The Dothan Metropolitan Area continued to build on its strength as a regional center for employment and trade in 1998. There were about 600 more people commuting to work in the Dothan MA from outside Dale and Houston counties during the year. Employment of local residents was up 400, with unemployment averaging 3.3 percent through November. Retail sales of $10,800 per capita in 1997 were the highest in the state. Sales were 6.8 percent
higher for the first six months of 1998 compared to 1997. Trade employment increased by about 200, while services sector jobs were up 600 through November. Although manufacturing employment declined by about 100, Dothan strengthened its position in transportation equipment manufacturing.

**Florence.** The Florence Metropolitan Area faced problems in 1998 in its manufacturing sector that were only partially offset by growth in other areas of its economy. Manufacturing averaged 1,300 fewer workers through November 1998 compared to 1997. Employment in primary metals averaged 500 below 1997, while nondurables employment, including textiles and apparel, was off 500. The recent announcement by Reynolds Metals of a definitive agreement to sell its complex to Wise Alloys LLC could boost area manufacturing. Trade, the area’s dominant employer, added about 400 jobs, although retail sales were up just 1.5 percent for the first six months of the year. Unemployment stayed at its 1997 level of 6.6 percent through November 1998 as both the number of employed residents and the size of the area labor force declined.

**Gadsden.** Restructuring in the Gadsden economy in the 1990s has created an employment mix balanced among manufacturing, trade, and services. Trade growth was strongest in 1998, with over 200 new workers. Retail sales for the first six months of the year compared to 1997 were up a moderate 3.0 percent. Employment in every other sector held steady or increased slightly over 1997, contributing to an overall increase of 600 nonagricultural jobs through November. Unemployment averaged 4.4 percent in 1998. Layoffs in the fall at Goodyear’s Gadsden tire plant and Gulf States Steel contributed to rising unemployment late in the year.

**Huntsville.** With the launching of the first components of the International Space Station in 1998, Huntsville was prominently in the public’s eye as a center for space technology. Overall employment in area manufacturing, which has a strong high-tech component, was up an average of 400 through November. However, a month-to-month comparison of November 1998 to November 1997 saw the loss of 1,900 electrical and nonelectrical machinery manufacturing jobs. The services sector was the major strength of the Huntsville economy in 1998, with jobs averaging 1,700 above 1997 levels. Trade employment was up also, with about 400 more workers in wholesale and retail trade. Still, retail sales for the first six months of the year were flat. Unemployment in the Huntsville MA averaged 2.9 percent, with 2,000 additional jobs on average in the area during 1998.

**Mobile.** Growth was balanced across all sectors of the Mobile Metropolitan Area during 1998. About 3,900 nonagricultural jobs were created. The addition of 1,200 jobs helped services remain the area’s dominant employer, with particular strengths in tourism and telemarketing. Wholesale and retail trade also had a good year, gaining about 1,000 jobs. However, retail sales were up a modest 0.8 percent for the first six months of 1998. Strong growth was also seen in state and local government. Manufacturing jobs were up just 300, as the area’s paper and textiles and apparel industries responded to competitive pressures. With jobs in the Mobile MA up strongly overall and the civilian labor force growing more slowly, unemployment was down from 4.9 percent in 1997, averaging 3.7 percent through November 1998.

**Montgomery.** Weak performance on the goods-producing side of the Montgomery Metropolitan Area economy moderated employment gains in 1998. Employment in manufacturing was up 100 through November, while construction employment was off 300 compared to 1997. Services, already the area’s dominant employer, had the strongest gains with the addition of about 900 jobs. Retail trade employment, down for most of the year, recovered late in 1998. Retail sales for the first six months of the year were up 0.8 percent over the same period in 1997. The Montgomery MA continued to build on its strength as a financial center in the state, with the addition of about 200 FIRE jobs. With nonagricultural jobs up 600 and the civilian labor force down slightly, unemployment averaged just 3.2 percent through November 1998.

**Tuscaloosa.** Tuscaloosa’s economy registered the highest percentage job growth in the state in 1998. Manufacturing continued the steady job gains seen during the 1990s. Success of the Mercedes M-Class spearheaded growth in the Tuscaloosa MA’s automotive manufacturing cluster as Mercedes and its area suppliers added capacity and jobs. Other segments also contributed to the gain of 800 manufacturing jobs through November 1998. Construction employment averaged 400 above 1997 levels. Services added about 500 jobs for the year, while retail trade employment in November 1998 was 400 above November 1997. Retail sales for the first six months of 1998 were 4.5 percent above the same period in 1997. At 2.6 percent, unemployment in the Tuscaloosa MA was the lowest in the state. Nonagricultural jobs rose 2,400 through November, while employment of area residents was up 1,600.

Carolyn Trent

---

For more information about these and other Alabama economic indicators, please visit the CBER Internet site at http://www.cba.ua.edu/~cber
NOW AVAILABLE!

ALABAMA ECONOMIC OUTLOOK 1999

The Alabama Economic Outlook 1999 examines current economic conditions and trends and their likely effects on the national and Alabama economies in the coming year.

The Alabama forecast focuses on the short term outlook for output and employment and looks at state revenues.

Copies are $15 each. Send check or money order (made payable to The University of Alabama) along with name and address to:

Center for Business and Economic Research
The University of Alabama
Box 870221
Tuscaloosa, Alabama 35487-0221

For additional information, call 205/348-6191 or visit our Web site at:
http://www.cba.ua.edu/~cber

Alabama Business is a monthly publication of the Center for Business and Economic Research, Culverhouse College of Commerce, The University of Alabama. Articles reflect the opinions of the authors, but not necessarily those of the staff of the Center, the faculty of the Culverhouse College of Commerce, or the administrative officials of The University of Alabama.

All correspondence should be addressed to: Editor, Alabama Business, Center for Business and Economic Research, The University of Alabama, Box 870221, Tuscaloosa, Alabama 35487-0221.

The University of Alabama
Center for Business and Economic Research
Box 870221
Tuscaloosa, Alabama 35487-0221

Address service requested.